

Financial training For non financial staff



The financial training specialists

Paying on time (profit and cashflow)

I often bang on about the importance of getting paid on time. It's an essential part of cashflow management. It's achieved by negotiating good payment terms with our customers, then making sure they stick to the agreed terms.

But for good cashflow management it's also important to agree good terms with our suppliers.

Some companies manage their cashflow by agreeing to their suppliers' payment terms, but then pay them late. Sometimes, very late.

They can do this because we control when we pay our suppliers. And the later we pay, the better our cashflow!

But is it a good idea?

It will alienate our suppliers, who've probably offered us their best prices to win our business.

When we have a crisis, and really need our suppliers, they're likely – if we consistently pay late – to tell us that their other customers are a higher priority, and we can wait.

They may withdraw facilities credit altogether if they can't trust us to honour the terms we agreed.

They might put their prices up to compensate for consistent late payment.

They'll probably be much more prepared to resort to legal action at an early stage to recover their money.

Our reputation will be tarnished. "You're doing business with XYZ? Don't expect them to keep their promises!"

All of these responses will damage our profit and our cashflow.

So do negotiate good terms with your suppliers to improve your cashflow. But then pay them on time. Without fail!